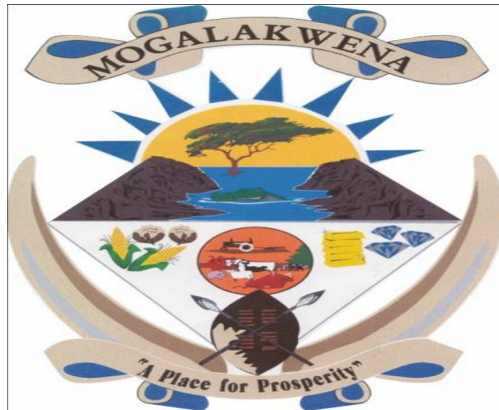


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ANNUAL BUDGET OF MOGALAKWENA LOCAL MUNICIPALITY



2012/13 TO 2014/15

**DRAFT MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS**

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Part 1 – Annual Budget

1.1 Mayor's Report

The Mayor will present her report separately in the council meeting to be held before the end of March 2012.

The speech will be attached to the minutes of the council meeting.

1.2 Council Resolutions

- The final budget related resolutions will be part of the budget document after the approval of the budget.
- The municipal manager will send the approved documentation to the national and provincial treasury.

1.3 Executive Summary

The municipality's priorities and linkages to the Integrated Development Plan

The political priorities of Mogalakwena municipality are as follows:

- Water and Sanitation
- Roads and Storm water
- LED & Unemployment
- Electricity
- Institutional Arrangements
- Refuse & Solid waste management
- Land & Environmental Management
- Housing
- Crime and Prevention
- Health
- Communication
- Education
- Sports, Arts and Culture
- Community Facilities
- Transport

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Mogalakwena is responsible for the provision of the following services to 77 100 households:

- Water and Sanitation
- Roads and Storm water
- Refuse Removal
- Electricity Distribution

The priorities are linked to the IDP as outlined in the detailed Capital Investment Programme from 2012/13 to 2014/15.

Key amendments to the Integrated Development Plan

Section 25 of MSA requires that each Municipal Council must adopt a single, inclusive and strategic plan for the development of the municipality. This plan must link, integrate and co-ordinate plans and it should take into account proposals for the development of the municipality.

Section 34 provides that the IDP must be reviewed annually and amended if necessary. It is clear from the budget that stringent budget control must be implemented in order to sustain the viability of the municipality.

Alignment with national, provincial and district priorities

The priorities of Mogalakwena municipality were aligned with that of national, provincial government and the district municipality which are access to portable water for all by 2014, access to basic sanitation at RDP level by 2014, electricity to all households by 2014.

Strategic Objectives:

The following key strategic objectives for the municipality shall provide direction to the planning and implementation process as well as to inform the operations of the municipality:

PRIORITY ISSUES	OBJECTIVES	OUTCOMES
1. Sustainable infrastructure development and maintenance	To improve the quantity and quality of municipal infrastructure and services	Enhanced and sustainable socio economic growth

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2. Building and Retention of Institutional capacity	To ensure that all stakeholders within the institution are adequately capacitated and retained	Competent and productive workforce
3. Revenue enhancement	Ensuring sound and efficient financial management	Sustainable financial viability
4. Stimulating economic development	To create inclusive and well-coordinated investment opportunities for the growth of the economy	Reduced poverty
5. Consistent and regular monitoring, reporting and evaluation	To develop and implement integrated management and governance systems	Accountable and good governance – clean audits
6. Effective and clear communication		
7. Integrated land use planning & management	To ensure the optimum utilization of land	Coordinated, rational, regulated and orderly land development and utilization

Key demographic, economic and other assumptions

Demographic overview

Mogalakwena Municipality contains over 50% of the Waterberg district municipality's population. According to StatsSA 2007 community survey Mogalakwena municipality total population adds up to 330 644 persons at 75313 households. The table below compares municipal demographics as presented by Statistics South Africa (STATSSA) in the 2001 Census, the 2007 Community Survey and municipality's projections of 1.4% increase per annum.

Table 1 Municipal Demographics based on 2001 Census, 2007 Community Survey and Municipality's Projection

TOPIC	2001 CENSUS	2007 CS	2011 PROJECTION	% POPULATION MOGALAKWENA	% POPULATION WATERBERG
Total Population	298440	330664	353810	100.00%	55%
Blacks	285278	315355	337430	95.37%	53%
Whites	11949	11970	12808	3.62%	2%
Coloured	267	119	127	0.04%	0.01%

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Indians	945	3200	3424	0.97%	1%
Male	137020	155136	165996	46.92%	26%
Female	161420	175508	187794	53.08%	29%

Source: StatsSA Census 2001 & Community Survey 2007.

Interpretation and Implications to the developmental mandate of the Municipality

Figures from the 2007 CS indicate a population increase from the situation in 2001. The population has increased by 9, 75% (about 32224 people) between 2001 and 2007. Reality on the ground indicates a significant increase in the number of households. The Municipality renders services to households and therefore adopts the layman's view that the number of households has increased significantly between 2001 and 2007. The increase in the number of households, particularly in the rural areas where there are minimal services has increased backlogs in electricity provision, housing needs, roads, access to water, sanitation needs, etc. There are arbitrary differences in figures with regard to racial groups' representations. Although racial integration is gradually being achieved through a few blacks moving from the traditional black towns and rural areas to settle in Mokopane, there is a widening gap between the rich and the poor. Racial segregation is replaced by socio-economic segregation. There is therefore a need to speed up integrated human settlement in order to proactively address resultant social ills (such as crime, and skewed unsustainable development).

Table 2 Population distribution according to age

NUMBER OF RESIDENTS PER AGE GROUP	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44
	37144	39651	41109	42991	28755	23010	20642	1222	16574
	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+
	13928	11669	10729	7119	8898	5314	5087	2066	2963

Source: StatsSA 2007 Community Survey.

The majority (36%) of the population is aged between 0 and 14 followed (35%) by those aged between 15 and 34, which suggests that the municipality is dominated by people who are both socially and economically active. In addition, the municipal area has a high dependency ratio due to the majority of the population aged between 0-14. However, the Municipality has to prioritize social programmes and projects which will be able to address the socio-economic needs of the people. For example, there is a need to increase the number and improve the quality of social amenities in the municipal area, preferably within the municipal growth points.

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There is also a high probability of the spread of sexually transmitted diseases, such as HIV/AIDS. The Municipality should therefore encourage and support HIV/AIDS programmes in at least all the nodal points. Attention should also be paid to local economic development initiatives in these population concentration points.

Table 3: Population distribution according to race and gender

NUMBER OF RESIDENTS PER RACE	BLACKS		COLOURED		INDIANS/ASIANS		WHITES	
	MALES	FEMALES	MALES	FEMALES	MALES	FEMALES	MALES	FEMALES
	147566	167789	58	61	1812	1388	5700	6270

Source: StatsSA 2007 Community Survey.

Economic overview

2007 Community survey: by municipality, gender and income category:

	MALE	FEMALE
No income	67 555	79 127
R1 – R400	42 927	46 455
R400 – R800	8 733	12 561
R801 – R1600	18 740	25 417
R1601 – R3200	6 138	2 504
R3201 – 6400	3 988	2 758
R6401 – 12800	2 936	3 602
R12801 – R25600	1 344	427
R25601 – R51200	96	79
R51201 – R102400	30	119
R102401 – R204800	85	0
R204801 or more	243	85
Response not given	1 290	1 193
Institutions	1 038	1 184

Community survey by municipality, gender and employment:

	MALE	FEMALE
Employed	30 121	22 698
Unemployed	14 335	16 601
Not economic	43 150	59 600
Unspecified	1 148	1 146
Institutions	730	742

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Other assumptions

NERSA has indicated an average increase of 16% on electricity for the 2012/2013 financial year.

Progress with provision of basic services**Access to services**

Service	No of households having services	Backlog
Water (RDP level)	83 096	3 229
Electricity	69 063	10 947
Refuse removal	41 769	10 663
Rural Sanitation	12 758	37 610

Indigent welfare packages for 2011/12:

Package Indigent	Compilation for	11/12 R(Vat excluded)	12/13 R(Vat excluded)
Rates – R100 000 Valuation		37.97	40.25
Refuse (up to 500 m2)		34.57	36.64
Sewage (up to 500 m2)		17.68	18.74
Electricity – 50kwh		31.50	33.00
Water – 6kl		44.22	48.20
Total indigent package per month		165.94	176.83

Free and subsidized services provided to the following number of households:

Water	2 538
Electricity	2 538
Sanitation	2 538
Refuse Removal	2 538
Rural Sanitation	2 538
Rates	2 538

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It should be noted that since the 2011/12 financial year, only indigents received 50kwh of free basic electricity. Due to financial constraints, the status quo will remain as such in the 2012/13 financial year.

Service charges and other fees and charges

Service	% increase
Water	9
Electricity	11
Refuse removal	6
Property rate	6
Sewerage	6

The effect of the annual budget

The demand on the municipality in terms of service delivery continues to grow and this results in an ever-increasing outflow on the resources at the disposal of the municipality. This factor will therefore continue to have a negative effect on the municipality's budget.

The municipality has budgeted 7% for salary increases in the 2012/13 financial year.

The following table is a summary of the total budget:

Total expenditure	621 614 311	660 182 388	746 507 835
Total operating income	805 101 231	867 005 345	954 595 291
Changes in net assets	183 486 921	206 822 957	208 087 456
Total operating (surplus)/ Deficit	-	-	-

Past performance and impact of the previous year's audited results and annual report

Mogalakwena municipality obtained an unqualified audit opinion from the Auditor General in the 2010/11 financial year. The municipality has been vigorously working to address the matters of emphasis as indicated by the Auditor General in the 2010/11 audit report. This is done in order to ensure that the unqualified audit opinion that was obtained remains sustainable.

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Consolidated financial position and summary medium term revenue and expenditure strategy

The sustainability of the municipality will be adversely affected in the long-term due to additional financial responsibilities that are placed on the municipality. Some legislation and sector department projects impose additional financial obligations on the municipality without additional funds being allocated. The municipality has had to significantly cut down on expenditure items for the 2012/2013 financial year due to financial constraints.

1.4 Operating Revenue Framework

1.4.1 Grant allocations

The Division of Revenue Bill allocations to Mogalakwena Municipality for the 2012/2013 to 2014/2015 financial years are as follows:

Grant allocations over the MTREF

Grant type	2012/2013	2013/2014	2014/2015
	(R'000)	(R'000)	(R'000)
Equitable Share	249 145	266 832	286 633
Finance Management Grant	1 500	1 500	1 750
Municipal Infrastructure Grant	137 346	144 884	157 652
Municipal Systems Improvement Grant	800	900	950
Neighborhood Development Grant	15 000	5 241	-
Water Service Operating Subsidy Grant	13 382	23 406	36 018
Regional Bulk Infrastructure Grant	55 700	60 000	60 000
Integrated National Electrification Grant	8 300	-	-

Supporting **Table SA 18, 19 and 20** is attached as pages to .

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1.4.2 Summary of Operating Income

The following table gives a breakdown of the income categories for the 2012/13 to 2014/15 financial years:

Description	Medium-Term Revenue & Expenditure Framework		
	2012/13	2013/14	2014/15
Operating Income			
Property rates	40 691 005	43 132 465	45 720 412
Sale of electricity	170 226 630	201 409 223	240 286 465
Sale of water	42 347 456	46 140 817	50 274 392
Sewerage	12 301 719	13 039 304	13 821 632
Refuse	10 787 627	11 434 882	12 120 887
Rent facilities and equipment	915 959	998 915	1 080 800
Interest earned – external investments	17 918 000	18 921 408	19 962 085
Interest earned – outstanding debtors	2 286 526	2 423 718	2 569 141
Dividends received	-	-	-
Fines	658 141	693 760	725 355
Licenses and permits	42 000	44 352	46 747
Income for agency	7 023 493	7 416 220	7 816 698
Operating grants and subsidies	252 580 330	280 931 827	314 759 283
Capital grants and subsidies	236 221 734	228 022 436	234 769 308
Other income	3 058 111	3 239 138	3 366 577
Public contributions and donations	2 042 500	2 156 880	2 275 509
Gain on disposal of Prop, Plant & Equipment	6 000 000	7 000 000	5 000 000
Total Operating Income	805 101 231	867 005 345	954 595 291

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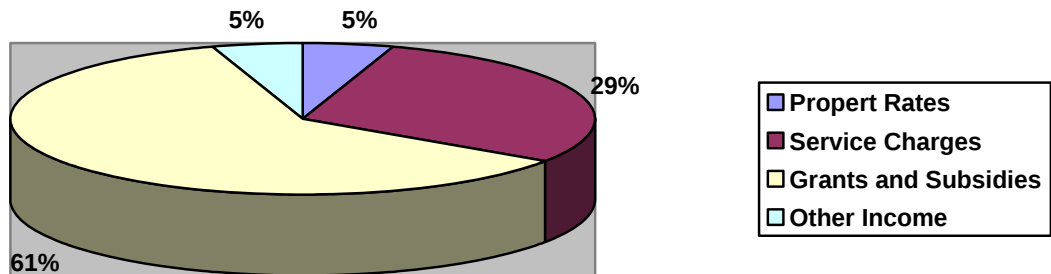


Figure 1 -Main Operational Income Categories

1.4.3 Rates tariffs and other charges

Proposed tariff increases for the 2012/13 to 2014/15 financial years with prior comparatives are the following:

Description	2011/12	2012/13	2013/14	2014/15
Rates	6%	6%	6%	6%
Refuse	6%	6%	6%	6%
Sewerage	6%	6%	6%	6%
Water	8.5%	9%	9%	9%
Electricity	20.38%	11%	20%	20%
Average Increase	9.38%	7.6%	8.63%	8.63%

- The electricity tariff increase for the 2012/13 financial year and the tariffs for 2013/14 and 2014/15 are provisional and are subject to approval by NERSA.
- The water tariff increase for 2013/14 and 2014/15 are provisional and are subject to the increase by Lepelle Northern Water.

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1.4.3.1 Water tariff

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of water supply for 2012/13 financial year:

- The Lepelle Northern Water (LNW) has resolved to increase their tariffs by 9% in 2011/12 financial year.
- The LNW 9% increase on its bulk tariff from 4.21c to 4.59c per kl (excluding VAT and the Water Research commission levy).
- It is estimated that water to the amount of R19 173 578.00 will be purchased from LNW and other service providers.

A total revenue of R42 347 456.00 is expected from water sales.

- The budgeted revenue is based on connection fees, defaulting fees, monthly consumption of water and testing of meters;
- Households will receive 6kl of free basic water;
- Consumers in villages will receive Free Basic Water through assistance from council to pay Eskom, repair broken boreholes and pay pump operators.

The following recommended tariff structure for water for 2012/13 compared to 2011/12:

Type Consumer	Type Scale	Intervals	11/12	12/13
			Per Kilolitre Vat Exclusive	Per Kilolitre Vat Exclusive
Domestic:	Gliding scale	00 – 6 kl	0.00	0.00
		6 – 10 kl	7.37	8.03
		11 – 50 kl	7.83	8.53
		51 – 100 kl	9.41	10.26
		101 > kl	15.66	17.07
Businesses:	Normal		7.83	8.53
Flats:	Normal		7.83	8.53
Industrial:	Normal		7.83	8.53

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Provincial Hospitals	Normal		7.37	8.03
Schools Churches Hostels Sport clubs	Normal		7.83	8.53
Departmental	Normal		7.83	8.53
Defaulting	Normal		248.44	270.80

The above-mentioned tariffs are subject to a 20% discount for unpurified borehole water as drinking water supplied to Rebene Township.

Prepaid tariffs will be calculated when pre-paid water meters are installed.

Examples of monthly water consumption charges:

Consumption KL	Current monthly account	Proposed monthly account	Additional amount payable	Increase
	R	R	R	R
6	0	0	0	0
10	29.48	32.13	2.65	9%
42	280.04	305.24	25.20	9%
75	577.93	629.94	52.01	9%
110	969.78	1 057.06	87.28	9%

1.4.3.2 Sewage tariff

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of sewage for 2012/13:

- A tariff increase of 6% is included in the draft 2012/13 MTREF.
- The free basic sanitation is provided for indigents only.

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The following recommended tariff structure for sewage for 2012/13 compared to 2011/12:

			11/12		12/13	
TYPE CONSUMER		SIZE OF ERF	BASIC vat exclusive	ADD-ITONAL vat exclusive	BASIC vat exclusive	ADD-ITONAL vat exclusive
1.	Residential	0-500	17.68		18.74	
	Houses	501-1000	35.45		37.57	
		1001-1500	56.69		60.09	
		1501-2000	63.77		67.60	
		2001-2500	70.85		75.10	
		2501-3000	77.94		82.62	
		First 3000 Every additional 500	7.10		7.53	
2.	Churches	0-500	17.68	14.97	18.74	15.87
	Hospitals	501-1000	35.45	14.97	37.57	15.87
	Creches	1001-1500	56.69	14.97	60.09	15.87
	Schools	1501-2000	63.77	14.97	67.60	15.87
	Sport clubs	2001-2500	70.85	14.97	75.10	15.87
		2501-3000	77.94	14.97	82.62	15.87
		First 3000 Every additional 500	7.10	14.97	7.53	15.87
3.	Other:					
	3.1 Businesses	Irrespective	187.73	47.80	198.99	50.66
	3.2 Industrial	Irrespective	187.73	47.80	198.99	50.66
	3.3 Flats	Irrespective	187.73	51.36	198.99	54.44
	3.4 Hostels	Irrespective	187.73	36.56	198.99	38.75
	3.5 Boarding house	Irrespective	187.73	36.56	198.99	38.75
	3.6 Departmental	Irrespective	187.73	47.80	198.99	50.66

Examples of sewerage tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	17.68	18.74	1.06	6%
1600	63.77	67.60	3.83	6%
3500	85.04	90.14	5.10	6%
Business	187.73	198.99	11.26	6%

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1.4.3.3 Refuse Removal

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of refuse removal for 2012/13:

The following recommended tariff structure for refuse removal for 2012/13 compared to 2011/12 financial year:

		11/12		12/13		
TYPE CONSUMER		SIZE OF ERF	BASIC vat exclusive	ADD- ITIONAL vat exclusive	BASIC vat exclusive	ADD- ITIONAL vat exclusive
Domestic	Residential houses	0-500	34.57		36.64	
	Churches	501-1000	50.53		53.56	
	Church halls	1001-1500	68.95		73.09	
	Residential erven which are being build on	1501-Above	74.30		78.75	
			Per	Bulk		
			Container	Container		
Commercial	Businesses	Irrespective	132.56	884.14	140.52	937.18
	Industrial	Irrespective	132.56	884.14	140.52	937.18
Other	Municipality	Irrespective	68.95	884.14	73.09	937.18
	Flats	Irrespective	68.95	884.14	73.09	937.18
	Old Age Homes	Irrespective	68.95	884.14	73.09	937.18
	Hostels	Irrespective	68.95	884.14	73.09	937.18
	Boarding houses	Irrespective	68.95	884.14	73.09	937.18
	Schools	Irrespective	68.95	884.14	73.09	937.18
	Hospitals	Irrespective	68.95	884.14	73.09	937.18
	Government	Irrespective	68.95	884.14	73.09	937.18
	Sport Organisations	Irrespective	68.95	884.14	73.09	937.18
	Charity Organisations	Irrespective	68.95	884.14	73.09	937.18
	Other	Irrespective	68.95	884.14	73.09	937.18
Bulk	Per load or part thereof		283.92		300.96	

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Example of monthly refuse tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	34.57	36.64	2.07	6%
950	50.53	53.56	3.03	6%
1200	68.95	73.09	4.14	6%
1550	74.30	78.76	4.46	6%
Business	132.56	140.51	7.95	6%

1.4.3.4 Property Rate Tariff

Property rates are mainly used to provide funds for non-remunerative services such as the cost of governance and administration of council, financial services, sport and recreation facilities. These funds also pay for the costs of maintaining an orderly community, for an example, as far as traffic, safety, trade, industries, health, roads and parks are concerned.

Depending on circumstances at a given moment, a rate payer may make use of these collective services to a greater or lesser degree. Given this kind of collective service, the provision must be financed by a general tax unlike the specific charge of measurable services such as water and electricity.

Annexure to MFMA Circular 51 as well as Government Gazette 33016, also known as the *"Amended Municipal Property Rates Regulations on the Rate Ratios between Residential and Non-Residential Properties"* were published to achieve national uniformity regarding property taxes.

Two factors determine the amount that the property owner must pay to a local authority for assessment rates: Firstly, the assessed value of the property and secondly, the effective assessment rate. Due to the implementation of the MPRA a new tariff structure has been formulated. The calculation is based on the market value of the property.

The applicable tariff on 1 July 2012 is 0,009469c (residential)(1 July 2011 – 0,008933c) and 0,018937c (1 July 2011 – 0,017865c) (business, commercial, industrial and mining) and 0,002367c(1 July 2011 – 0,002233c) (agriculture, state owned property excluding residential, public service infrastructure, public benefit organization property) in the Rand.

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The table below reflects assessment rates compared to total expenditure:

Year	Operating Budget ('000)	Rates ('000)	%
2011/2012	545 928	38 233	7.00%
2012/2013	621 614	40 691	6.55%
2013/2014	660 182	43 132	6.53%
2014/2015	746 507	45 720	6.12%

The following recommended tariff structure for Property Tax for 2012/13 compared to 2011/12 financial year:

TYPE	TARIFF CODE	11/12		12/13	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1.Improved residential stands	VA771 /4771	0.008933	40.00	0.009469	40.00
2. Improved business stands	VA772 /4772	0.017865	0.00	0.018937	0.00
3. Pensioners as rate policy	VA773/ 4773	0.008933	100.00	0.009469	100.00
4. Pensioners as rate policy	VA774/ 4774	0.008933	100.00	0.009469	100.00
5. State owned properties	VA775/ 4775	0.002233	30.00	0.002367	30.00
6. Improved flats	VA776/ 4776	0.008933	40.00	0.009469	40.00
7. Developed erven industrial	VA777/ 4777	0.017865	0.00	0.018937	0.00
8. Undeveloped erven	VA778/ 4778	0.017865	0.00	0.018937	0.00
9. Municipality	VA779/ 4779	0.000000	0.00	0.000000	0.00
10. Undeveloped business erven	VA780/ 4780	0.017865	0.00	0.018937	0.00
11. Permission to do business on residential erven	VA781/ 4781	0.017865	0.00	0.018937	0.00
12. Undeveloped industrial	VA782/ 4782	0.017865	0.00	0.018937	0.00
13. Undeveloped flat erven	VA783/ 4783	0.017865	0.00	0.018937	0.00
14. Private parks	VA788/ 4788	0.002233	0.00	0.002367	0.00
15. Private streets	VA789/ 4789	0.002233	0.00	0.002367	0.00
16. Agricultural fields (Macalacaskop)	VA790/ 4790	0.002233	0.00	0.002367	0.00
17. Welfare organizations, Hospitals, Clinics etc	VA791/ 4791	0.002233	100.00	0.002367	100.00

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Agricultural

TYPE	TARIFF CODE	11/12		12/13	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1. Residential	VA5771	0.002233	0.00	0.002367	0.00
2. Business, Commercial, Ecotourism, game hunting	VA5772	0.002233	0.00	0.002367	0.00
3. Pensioners as rate policy	VA5773	0.002233	100.00	0.002367	100.00
4. Pensioners as rate policy	VA5774	0.002233	100.00	0.002367	100.00
5. State owned properties	VA5775	0.002233	0.00	0.002367	0.00
6. Industrial, agricultural holdings	VA5776	0.002233	0.00	0.002367	0.00
7. Undeveloped	VA5777	0.002233	0.00	0.002367	0.00
8. Municipality	VA5778	0.000000	0.00	0.000000	0.00
9. Mining	VA5779	0.017865	0.00	0.018937	0.00
10. Welfare organization, Hospitals, Clinics etc	VA5780	0.002233	100.00	0.002367	100.00

1.5 Operating Expenditure Framework

The following table gives a breakdown of the expenditure categories for the 2012/13 financial year:

Description	Medium-Term Revenue & Expenditure Framework		
	2012/13	2013/14	2014/15
Operating Expenditure			
Employee related costs	186 733 613	198 139 122	209 640 630
Remuneration of councilors	17 864 645	19 195 931	20 300 122
Bad debts	41 562 115	50 942 384	60 935 318
Collection costs	200 000	210 000	220 000
Depreciation	51 241 629	56 984 744	61 635 200
Repairs and maintenance	80 064 163	50 930 687	54 386 299
Interest paid	-	-	-
Bulk purchases – Electricity	132 240 000	169 267 200	216 662 016
Bulk purchases – Water	19 173 578	20 210 112	21 301 458
Contracted services	28 775 681	25 088 001	26 768 466
Grants and subsidies paid	1 729 543	1 818 602	1 913 906
General expenditure	54 957 642	59 394 936	63 700 895
New connections	1 915 402	2 022 665	2 131 889
Free basic electricity	3 000 000	3 500 000	4 200 000
Free basic water	13 827 553	14 761 373	15 807 796
Free basic refuse - Indigents	1 500 000	1 600 000	1 700 000

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Free basic sewerage - Indigents	500 000	600 000	700 000
Free basic assessment rates	1 932 000	2 047 920	2 170 795
Inter-departmental charges	20 942 194	22 801 384	23 842 645
Less: Expenditure recharged	(15 603 253)	(16 531 289)	(17 666 955)
Less: Amounts charged out	(20 942 194)	(22 801 384)	(23 842 645)
Total Operating Expenditure (Nett)	621 614 311	660 182 388	746 507 835

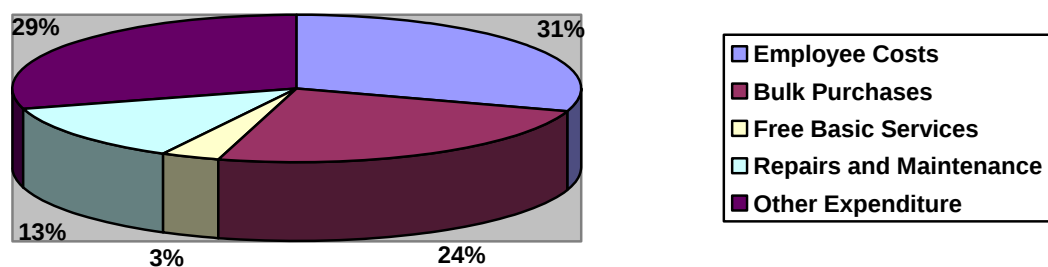


Figure 2 -Main Operational Expenditure Categories

1.6 Capital Expenditure

A breakdown of the capital expenditure for the 2012/13 financial year is attached as pages to .

1.7 Annual Budget Tables

The Annual Budget Tables:

Table A1	Budget summary – (attached as <u>page</u> <u> </u>)
Table A2	Budgeted Financial Performance (revenue and expenditure by standard classification) – (attached as <u>pages</u> <u> </u> to <u> </u>)
Table A3	Budgeted Financial Performance (revenue and expenditure by municipal vote) - (attached as <u>pages</u> <u> </u> to <u> </u>)
Table A4	Budgeted Financial Performance (revenue and expenditure) - (attached as <u>page</u> <u> </u>)
Table A5	Budgeted Capital Expenditure by vote, standard classification and Funding - (attached as <u>pages</u> <u> </u> to <u> </u>)

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Table A6	Budgeted Financial Position - (attached as <u>page</u>)
Table A7	Budgeted Cash Flows - (attached as <u>page</u>)
Table A8	Cash backed reserves/ accumulated surplus reconciliation - (attached as <u>page</u>)
Table A9	Asset Management - (attached as <u>page</u>)
Table A10	Basic service delivery measurement - (attached as <u>page</u>)

Budget Related Charts and Explanatory Notes:

Supporting information, charts and explanations of trends and anomalies for each table are reflected as **table SA1 – SA 37** (attached as pages to)

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Part 2 – Supporting Documentation

2.1 Overview of Annual Budget Process

2.1.1 In undertaking its annual budget process, Mogalakwena Municipality was guided by the following key legislation and documents:

- Municipal Finance Management Act;
- Municipal Systems Act;
- MFMA Circular 55, 58 and 59
- Government Gazette 32141

The municipality is always conscious of the fact that the IDP, Budget and other consultative processes have to be undertaken with credibility and honesty in order to ensure good governance and accountability. The Municipality engaged its various stakeholders in preparing this 2012/13 MTREF budget, including:

- Communities in all 32 wards
- Heads of Sector departments
- Private Sector
- Traditional Leaders
- Ward committee representatives
- Community based organizations
- NGO's
- Disabled people's groups, women, youth and pensioners.
- Community Development Workers

From these community participation and consultation process, the municipality identified and prioritized the needs of the communities. The priorities were later allocated weights and an iteration process was undertaken to find the best fit between the needs prioritized and the funding envelope, consisting of both own revenue and grant funding. As is almost always the case in any budget process, some priorities were identified that can not be funded in the 2012/13 financial year.

These priorities and their related programmes/ projects are included in the medium term IDP for funding consideration once additional funding becomes available, currently or in the future years.

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In all these public consultation and participation process, including internal prioritization and negotiation processes, the Mayor played an active oversight role over the IDP and Budget as required by Section 53(1)(a) of the MFMA, which states that the Mayor of a municipality must provide general political guidance over the budget process and the priorities that must guide the preparation of the budget. Under the influence of the Mayor, engagements were also held over a number of days with the Councillors in the budget and prioritization processes. The table below is an extract of the key deadlines relating to the Budget and IDP processes as required by Section 21(1)(b) of the Municipal Finance Management Act, 2003:

MONTH	IDP	PMS	BUDGET
July	Print and distribute final approved IDP. Development of 2012/13 IDP Process Plan that guide the planning, drafting, adoption of the plan. Give notice to local community of particulars of the Process Plan.	Conclude annual performance agreements Print and distribute final approved SDBIP	Place approved annual budget and policies on the municipal Web site Print and distribute final approved budget Establish appropriate committees and consultation forums
August	Table to EXCO, council the IDP Process Plan for approval. Conduct stakeholder registration. Consider comments from various stakeholders during 2011/12 IDP Roadshows	Place annual performance agreements on the municipal website Development and submission of annual performance report	Table in council IDP, PMS and budget process plan

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September	Consider proposals received from MEC, if any.(IDP preparation process) Public consultation in terms of Tariffs, Indigent Credit, Credit Control and FBE. Public consultation in terms of CBP.		Implement process plan Commence community and stakeholder consultative process, review inputs, financial models, assess impacts on tariffs and change and consider funding decisions
October	Setting new strategic agenda for the IDP in light of the new focus of Council.		Consolidate community inputs on proposed tariffs.
November & December	Horizontal and vertical alignment with District, Province and other stakeholders begins.		Finalize inputs from bulk resource providers and agree on proposed price increase

2.1.2 The following policies were taken into account when developing the annual budget:

- The Rates Policy
- Credit Control and Debt Collection Bylaw
- Indigent Policy
- Tariff Policy
- Investment Policy
- Supply Chain Management Policy
- Asset Management Policy and Asset Management Procedure Manual

2.1.3 Community consultation process with communities and key stakeholders:

Section 22 of MFMA stipulates that immediately after the annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents; invite the local community to submit representations in connection with the budget; and submit the annual budget to National Treasury and the relevant provincial treasury in printed and electronic formats.

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Section 23(2) of the MFMA provides further that after considering all budget submissions, the council must allow the mayor an opportunity-

- (a) to respond to the submissions
- (b) if necessary, to revise the budget and table amendments for consideration by council.

The extensive consultations will take place from 13 April 2012 and will end on 21 April 2012. Stakeholders who have attended the meetings and will attend the remaining meetings include ward committees, members of the community, Traditional Leaders, community, representatives from youth organizations, sector departments, mining houses and business.

The following provides an overview of the publication and public participation activities:

Councillors briefing sessions:

Councillors were briefed on 27 March 2012 before proposals are tabled to other stakeholders.

Publication of the draft budget:

The draft notices were published in local and national newspapers inviting the public to view and inspect the budget documents to enable them to submit submissions. The draft IDP/ Budget report will be available at the library, community halls, tribal offices, SDA's and the MPCC's.

Ward committees and traditional authorities, organized business and sector departments also participate in the IDP representative forum meetings.

Public hearing: The stakeholders raised questions and comments on the progress made by council. The written submissions will be handed to the Manager: Developmental Services at the end of the community consultation process. The Mayor will respond to the issues raised.

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Main concerns and comments raised during the consultation process

After the tabling of the draft budget to council, the concerns raised by the stakeholders on the following matters will be addressed in the final budget:

- Water and sanitation
- Roads and storm water
- Electricity
- Housing
- High-mast lights
- Health
- Land: Cemetery
- General

The schedule of the 2012/13 IDP/Budget Mayoral Roadshows will be developed by the IDP section.

2.2 Overview of Alignment of Annual Budget and IDP

The IDP of the municipality must be reviewed annually in terms of section 34 of the MSA and section 21 of the MFMA.

2.1.1 Vision of the Municipality

The vision of Mogalakwena Municipality is ***to be the leading, sustainable and diversified economic hub focused on community needs.***

2.1.2 Details of proposed amendments to the Integrated Development Plan

New needs that emerged after June 2011 have been taken into account when compiling the draft 2012/2013 IDP.

The draft 2012/13 IDP will be presented to council together with the draft MTREF 2012/13 before the end of March 2012.

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2.1.3 Revenue, operating expenditure and capital expenditure aligned to IDP

Developmental services together with Finance department initiated that the first priority must be allocated the higher percentage of funding.

The prioritization criteria and their respective weights for 2012/13 are as follows:

Source of funding	MIG	Own funding	Equitable Share
	%	%	%
Roads and storm water	50.54	6.25	52.72
Water and Sanitation	42.32	16.75	9.23
LED	0	0.10	0
Land and Cemeteries	0	0	0
Electricity	0.60	39.40	3.52
Institutional	0	10.20	0
Waste Management	0	13.58	0
Other	6.54	13.72	34.53

2.3 Measurable performance objectives and indicators

The measurable performance indicators and objectives for revenue and expenditure (both capital and operating) will be contained in the Service Delivery Budget Implementation Plan (SDBIP) of the municipality and of the Section 57 managers. The SDBIP will have to be designed such that it gives effect to the implementation of the budget, with quarterly performance targets. The SDBIP will be submitted to the Mayor immediately after the budget has been approved. The time-frames as contained in Section 53(1)(c) of the MFMA will be complied with.

2.4 Overview of budget-related policies

The municipality acknowledges that for the budget to be credible and balanced, it must be supported by policies that guide the revenue and expenditure estimates. To ensure this, the budget related policies have been reviewed to take the socio-economic realities of the communities into account.

2.4.1 Debt Collection and Credit Control Policy

There are no amendments to the Debt Collection and Credit Control Policy.

The Debt Collection and Credit Control By-Law is attached as pages .

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2.4.2 Indigent Policy

The Indigent Policy has been amended as follows:

Clause 9 on page 5 of the policy changes from reading as follows:

"The title of this policy is indigent policy and the commencement date is on the 01 July 2011"

to reading as follows:

"The title of this policy is indigent policy and the commencement date is on the 01 July 2012"

The amended Indigent Policy is attached as pages to .

2.4.3 Rates Policy

The Rates Policy has been amended as follows:

Clause (k)(aa) on page 18 of the policy changes from reading as follows:

"the joint income of that person and his/her spouse, if any, for the year ended 20 June may not exceed R44 500 (fourty thousand four hundred and fifty Rand) per year or such higher amount as may be determined in the municipality's budget."

to reading as follows:

"the joint income of that person and his/her spouse, if any, for the year ended 20 June may not exceed R48 000 (fourty four thousand five hundred Rand) per year or such higher amount as may be determined in the municipality's budget."

The amended Rates Policy is attached as pages to .

2.4.4 Tariff Policy

There are no amendments to the Tariff Policy.

The policy is attached as pages to .

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2.4.5 Supply Chain Management Policy

The Supply Chain Management Policy has been amended.

The amended Supply Chain Management Policy is attached as pages to .

2.4.6 Investment Policy

There are no amendments to the Investment Policy.

The policy is attached as pages to .

2.4.7 Asset Management Policy

There are no amendments to the Asset Management Policy.

The policy is attached as pages to .

2.4.8 Asset Management Procedure Manual

There are no amendments to the Asset Management Procedure Manual.

The procedure manual is attached as pages to .

2.4.9 Irregular, Fruitless and Wasteful Expenditure Policy

A new Irregular, fruitless and wasteful expenditure policy has been developed

The policy is attached as pages to .

2.4.10 Expenditure Policy and Procedure Manual

A new Expenditure Policy and Expenditure procedure manual have been developed

The policy is attached as pages to .

2.4.11 Veriment, adjustment budgets, and unforeseen and unavoidable expenditure

The mid-year budget and performance review, coupled with the monthly budget statements are considered key documents to assist with the preparation of an adjustment budget and forthcoming budget.

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The 2012/13 medium term budget should only be amended by:

Departmental Managers authorizing offsetting operating budget variations within the votes delegated to them, essential allowing variations within the department budget 'groups' but not across budget groups. Therefore, for example, manager could transfer allocations within an expenditure group such as 'Employee costs'. It should be noted that each capital project also represents a vote requiring Council approval to amend.

A mid-year review by the Accounting Officer in accordance with the MFMA, due for completion by January, which would possibly culminate in an Adjustment Budget being presented to Council in the month following the review, if required.

An Adjustment Budget in accordance with the provision of section 28 of the MFMA brought to Council for approval in circumstances where extraordinary events require fundamental and urgent change to budget.

Section 28 of the MFMA, Act No. 56 of 2003 provides as follows:

"(1) A municipality may revise an approved annual budget through an adjustments budget.

(2) An adjustment budget-

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*
- (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*
- (c) may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;*
- (d) may authorize the utilization of projected savings in one vote towards spending under another vote;*
- (e) may authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonable have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*

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(f) may correct any errors in the annual budget; and

(g) may provide for any other expenditure within a prescribed framework

(3) An adjustment budget must be in a prescribed form.

(4) Only the mayor may table an adjustment budget in the municipal council, but an adjustment budget in terms of section (2)(b) to (g) may only be tabled within any prescribed limitations as to timing frequency.

(5) When an adjustment budget is tabled, it must be accompanied by –

(a) an explanation how the adjustment budget affects the annual budget;

(b) a motivation of any material changes to the annual budget;

(c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and

(d) any other supporting documentation that may be prescribed.

(6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

(7) Sections 22(b), 23(b) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustment budget.”

Unforeseen and Unavoidable Expenditure

Section 29 of the MFMA, Act No.56 of 2003 provides as follows:

“(1) The mayor of a municipality may in emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

(2) Any such expenditure –

(a) must be in accordance with any framework that may be prescribed,

(b) may not exceed a prescribed percentage of the approved annual budget,

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(c) must be reported by the mayor to the municipal council at its next meeting, and

(d) must be appropriated in an adjustment budget.

(3) such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorized and section 32 applies."

2.5 Overview of budget assumptions

2.5.1 Review of external factors

Population migration

Population migration as more houses are built especially RDP for indigents which require the increase of bulk services and the increase of free basic services.

Employment

One of the key social problems facing the Mogalakwena Municipality is Poverty. The unemployment estimates in the Municipality vary between 45% and 70% of the economically active population (people between the ages of 15 and 64 years). Women, and especially rural women, form the greatest number affected by the lack of job opportunities as well as other social problems

Development of Businesses

The following new business development areas have been approved by council:

- Ext 13 & 6 – Industrial sites are currently being sold
- Ext 13 (Erf 4794) – Site for a shopping complex has been approved by council. The tender still has to be advertised.
- Erf 4699 – Site approved by council for a motor dealership. The tender has to be advertised.
- Portion of portion 82 of Erf 44, known as Piet Potgietersrus town and town lands – Site has been approved by council as a business site.
- Ext 3 (Erf 1255) – Site has been approved by council for combined use (business and residential).
- Portion 1 (Erf 44) – Private development of a shopping mall.

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New residential areas

The following new residential areas have been approved or proposed to council:

- Rebone Ext – 600 sites
- Ga-Puka Ext 2 – 500 sites (rural – sites to be allocated by Headman)
- Ga-Puka Ext 1 – 200 proposed sites to be taken to council
- Ga-Sekhaolelo – 400 proposed sites to be taken to council (mine still has to sign lease agreement for the mine land which is occupied by the community).

Bulk services still have to be provided to the approved areas and additional bulk services will be required if the proposed sites are approved by council.

2.5.2 General inflation outlook and its impact on municipal activities

The inflation rate of 5.4%, 5.6% and 5.4% were applied for the 2012/2013 to 2014/2015 financial years consecutively. This is an indication of the rising costs to provide services to the municipality and the municipality will have to look for better methods of cost-reduction and cost-recovery.

2.5.3 Interest rates for borrowing and investment of funds

The municipality has no borrowing obligations. The interest rate for investment of funds is lower than the previous year and this will affect the interest that the municipality generates on investments.

2.5.4 Timing of Revenue Collection

In the current economic climate it is anticipated that it will still take longer to collect revenue and bad debts will increase, but for the municipality to be sustainable a vigorous debt collection campaign will have to be embarked on.

2.5.5 Growth or Decline in Tax Base of the Municipality

There was no significant growth in the tax base as the MPRA has been phased in. The valuation roll was finalized in December 2007 and a new valuation roll is earmarked for 1 July 2013.

The slowdown in economic growth hampers growth in the tax base.

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2.5.6 Collection Rates

The average collection rate for the past financial year was 86% but should be improved to be sustainable on the long-term.

2.5.7 Price Movements

The increase in the purchase price for bulk water from Lepelle Northern Water is 9% and from Eskom from provisionally increase for bulk electricity is 16%.

2.5.8 Average salary increases

A 7% increase on salaries is budgeted. The actual salary increase will be as per SALGBC.

2.5.9 Industrial relations, climate reorganization and capacity building

The industrial sites that are currently being sold by the municipality will result in an expansion of the industrial area. If a significant number of the sites are sold, it will result in an enormous injection for the area in respect of services and job creation.

2.5.10 Trends in Demand for Free or Subsidized Basic Services

There is a growth of 1.4% in the population which is having an effect on the households.

2.5.11 Changing Demand Characteristics

The demand for services exceeds available resources and the municipality therefore cannot meet all the needs of the communities at this stage.

2.5.12 Trends in demand for Free or Subsidized Basic Services

Although the free basic services were phased out for non-indigent consumers in the 2010/11 financial year, this has not improved the municipality's affordability to provide services to all its consumers. All consumers will continue to receive 6kl of free basic water.

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2.5.13 Impact of National, Provincial and Local Policies

The National Treasury Circular 51 (Section 3.3) indicated that the Department of Cooperative Governance and Traditional Affairs intended to introduce further amendments to the Municipal Property Rates Act to improve its implementation.

Mogalakwena municipality as a result, paid particular attention to ensuring that the property rates charges to key economic sectors, such as agriculture, remain affordable.

The municipality further prepared the budget with consideration of MFMA circulars and other policy imperatives.

2.5.14 Ability of the Municipality to Spend and Deliver on the Programme

Capital projects will be implemented from grant funding but there are no sufficient funds available for adequate maintenance of infrastructure. This may have a negative impact on the infrastructure as it may deteriorate rapidly.

2.5.15 Implications of Restructuring and other Major Events into the Future

The municipality is not aware of any restructuring and/or major events that will affect the municipality in the foreseeable future.

2.6 Overview of budget funding

Section 18(1) of the MFMA requires the budget of a municipality to be funded from-

- (a) realistic anticipated revenue to be collected;
- (b) cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) borrowed funds, but only for the capital budget referred to in section 17(2) of the MFMA.

Section 18(2) of the MFMA requires the revenue projections in the budget to be realistic, taking into account-

- (a) projected revenue for the current year based on collection levels to date; and
- (b) actual revenue collected in the previous financial year.

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This budget has been prepared taking into account the requirements of the abovementioned section. Revenue was estimated using a collection rate of 85% to billings. The capital budget was limited to the gazetted funding. An adjustment budget will be compiled for council consideration once more funding becomes available from either internal and/or external sources.

2.6.1 Investments

Investments held represent cash backed accumulated surpluses and the unspent conditional grants and receipts.

The Table below indicates the investment particulars by maturity as at 20 March 2012:

Institution	Investment	Monetary value
		'000
ABSA	Short term	85 000
FNB	Short term	100 000
Nedbank	Short term	115 000
Standard Bank	Short term	119 000
Total		419 000

The total amount invested externally as at 20 March 2012 amounts to R419 million which is R216 million more than the investments as at 18 March 2011.

The interest earned from these investments would be utilized to fund the operating budget. The capital replacement reserve is also backed by the investments.

Supporting **Table SA 16** is attached as page _____ to _____.

2.6.2 Estimated debtors collection levels

A debtor's collection rate of 85% of levied amounts is estimated for the 2012/13 financial year.

2.6.3 Planned proceeds from sale of assets

The municipality developed 1200 residential stands for resale in Extension 12. To date the municipality has sold 172 stands. Mechanisms will be implemented to sell the remaining stands on hand.

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2.6.4 Planned proceeds from lease of assets

Proceeds from rental of facilities and equipment are estimated at R915 959.

2.6.5 Planned use of bank overdrafts

Mogalakwena has no plans to utilize bank overdrafts in the 2012/13 financial year.

2.6.6 Use of previous year's cash backed accumulated surpluses

After the compilation of the 2011/12 financial statements, if there is any cash surpluses they will be addressed in the adjustment budget 2012/13.

Expenditure on allocations and grants programmes

Provision is made in the 2012/13 budget for the following statutory and reserve fund contributions:

- Capital Replacement Reserve : R 19 988 770
- Provision for bad debt reserve : R 41 562 115

Contributions in total amount to R 61 550 885 and this represents 9.90% of total operating expenditure. The working capital reserve makes provision for non-payment of services.

Allocations and grants made by the municipality

The following allocations and grants are made by the municipality for 2012/13:

Discretionary fund Mayor	: R 1 000 000
Free burials paupers indigent	: R 41 063
Free Basic Services for indigents – Water	: R 13 827 553
- Electricity	: R 3 000 000
- Sewer	: R 500 000
- Refuse	: R 1 500 000
- Assessment Rates	: R 1 932 000

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2.8 Councillor and board member allowances and employee benefits

The following information with regard to the salary budget which forms part of the operating budget must be taken into consideration by council before approving the budget:

- Provision for a 6.5% increase was made for councilors and 7% for officials;
- All new positions were budgeted for on the beginning scale of the post level

Disclosure of salaries and allowances and benefits is attached as supporting **Table SA 22 and 23** pages to .

2.9 Monthly targets for revenue, expenditure and cash flow

The disclosure on monthly targets for revenue, expenditure and cash flow is attached **Table SA 25 to SA 30** as pages to .

2.10 Annual budgets and SDBIP

Section 53(1)(c)(ii) of the MFMA Indicates that the mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget.

The SDBIP will be submitted to the mayor immediately after the budget has been approved. The time-frames as contained in Section 53(1)(c) of the MFMA will be complied with.

2.11 Contracts having future budgetary implications

Contracts having future budgetary implications are reflected in **table SA33** attached as page .

2.12 Capital expenditure details

A combination of grant funding and own funds will be used to fund the capital budget. The detailed capital budget over the 2012/13 MTREF is attached as pages to .

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2.13 Legislation compliance status

This budget has been prepared in accordance with the requirements of the Municipal Finance Management Act, the Municipal Budget and Reporting Regulations and the Municipal Systems Act. The municipality has complied with the new budget format when compiling the 2012/13 to 2014/15 MTREF.

2.14 Other supporting documents

Circular 55, 58 and 59 as issued by National Treasury have been attached as pages.

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2.15 Municipal Manager's Quality Certificate

Quality certificate

I Shella William Kekana, Municipal Manager of Mogalakwena Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name : _____

Municipal Manager of : Mogalakwena Municipality (LIM367)

Signature : _____

Date : _____